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Exhibit H

22 days later



monet-supply BA Labs Team

4 Sep 12

WBTC Update - 12 September 2024

On behalf of BA Labs, we are providing an update on our risk review and monitoring for WBTC in light of the recently proposed change in ownership and control of the product.

TL;DR: We recommend proceeding with an orderly offboarding of all WBTC collateral exposure from the Sky Ecosystem, including Legacy Vault Types and SparkLends. Specific recommended parameter changes to be implemented in an upcoming spell are listed under **Summary of Recommended Changes** section below.

BitGlobal Findings

To summarize:

- Based on available evidence, it is highly likely that Justin Sun or affiliates control BitGlobal, with ownership concealed through shell companies and nominee directors
- Justin Sun affiliated stablecoins and custodial products have a significant negative track record and pose elevated counterparty risk
- Given evidence of concealment and concerns about validity of previous disclosures for Sun affiliated entities and products, we find that legal due diligence would not provide an adequate level of assurance

BitGlobal lists Yiyang "Jennifer" Jiang as a director. This is the same individual who also was listed as director for TUSD (see [this post](#)), and has also been linked with other Sun linked entities including BitTorrent, Poloniex and Huobi affiliates. This [article](#) from Protos provides additional background. Based on the preponderance of the evidence, we conclude it is highly likely that Justin Sun has effective control over the BitGlobal entity. This is notable as while BitGo mentioned Sun's involvement in their initial disclosure on 9 August, there has been no acknowledgement that Sun owns or controls BitGlobal. This seems to fit a pattern of potential concealment that we also saw from TUSD, and other Sun linked ventures (for example Sun was initially listed as an advisor to Huobi before it became public that he purchased the exchange).

Sun's assumed ownership or control of the WBTC product via BitGlobal poses significant risks due to a troubling negative track record with respect to other Sun affiliated custodial products and stablecoins. We give an overview of these below:

TUSD

- TUSD is purchased by Techteryx with Jiang serving as a director, Sun denies ownership
- TrustToken stated that they would continue to manage funds and private keys as service provider (not Techteryx)
- By 2023, TrustToken ended relationship with TUSD with control of the product being fully offshore
- TUSD has faced several significant (>2%) depegs, and has stopped providing real time proof of reserves

HBTC

- Huobi affiliated / co branded tokenized Bitcoin product
- Begins to trend off peg in late 2023, before fully depegging more than 80% in February 2024
- Failure aligns with Justin Sun's acquisition of Huobi

HUSD

- Huobi affiliated / co branded USD stablecoin, product was spun out into separate company Stable Universal
- Depegs beginning in late October 2023, currently trading at \$0.025 (down 97%)
- Failure aligns with Justin Sun's acquisition of Huobi

Huobi / HTX

- Sun initially listed as advisor in October 2023 ([source](#))
- Then disclosed to be leading exchange in January 2024 ([source](#))
- Huobi reserves have been significantly substituted with Sun affiliated wrapped assets that lack transparency
 - USDT substituted with stUSDT, a Sun affiliated RWA wrapper without reliable audits or proof of funds
 - BTC substituted with Tron wrapped BTC (a tokenized product issued by Poloniex with no proof of native Bitcoin backing)

USDD

- Partial / hybrid algorithmic stablecoin issued by Sun affiliated Tron DAO
- BTC backing for the stablecoin was recently removed by Sun without any governance process, indicating Sun has control over assets in the reserve ([source](#))
- USDD is now primarily backed by endogenous collateral (TRX tokens) with insufficient hard assets to support circulating USDD tokens if many users want to sell at once

We see there is a long history of concealment of ownership, movement of funds without clear authority, lack of transparency, and actions that could negatively impact end users or lead to impairment of assets or custodial services. Given the above track record, and particular the use of shell companies, nominee directors, and comingling of funds across Sun affiliated entities when undertaking audits, we believe that a legal due diligence process under NDA (as suggested by BitGo) will provide little to no additional assurance. We do not believe that any documentation or management assertions provided in a due diligence process would be credible.

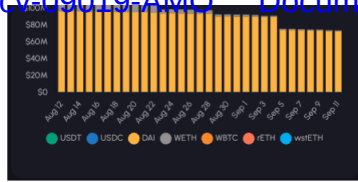
Given the above circumstances, we conclude that the only reliable way to mitigate risk from WBTC is to pursue a full collateral offboarding.

Additionally, we note that WBTC legacy vaults are not considered native vault engine collateral in the Atlas (see [here](#)), which indicates that it should be offboarded when appropriate. Per the scope language: "All other collateral types should be offboarded when the Stability Facilitators deem it appropriate and when new mechanisms are in place to take over the roles previously covered by the offboarded collateral."

Current Exposure and Trends

SparkLend currently has \$73 million in debt collateralized against WBTC, with 98% of this composed of DAI debt and the remaining 2% split across other assets including ETH and other stablecoins. This is down roughly 35% from a total of \$112 million in debt collateralized last month when the WBTC change of control was first disclosed. LTV has been set to 0%, so it is not possible for new borrowing activity to take place from accounts that include WBTC collateral.

S20M

SparkLend Dashboard ¹⁴

Legacy vaults currently have an aggregate of 127 million DAI debt collateralized, down roughly 18% from 155 million exposure in early August. Debt cannot increase via legacy vaults either as debt ceilings for each vault have been set to 0 DAI.

Recommended Actions

We recommend fully offboarding WBTC collateral from the Sky ecosystem across both SparkLend and Maker legacy vaults, with a measured pace of parameter changes to minimize disruption and impact on user experience. Control of WBTC is expected to be handed over to the new venture led by BitGlobal as early as 8 October 2024, so we will target to begin derisking collateral exposure by this point in time.

While a full schedule of offboarding recommendations is listed below, we will take account of observed user behavior, market conditions, and any change in WBTC risk profile over time when implementing future parameter change recommendations. Therefore, the exact pace and composition of actions is subject to change.

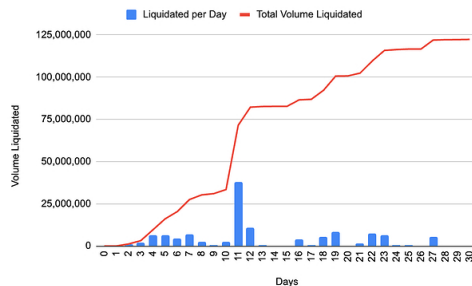
Legacy Vaults

We can use the linear interpolation (LERP) mechanism to gradually increase liquidation ratio for the WBTC-A, WBTC-B, and WBTC-C vaults until all remaining positions have been closed or liquidated. The liquidation penalty parameter should be reduced from standard 13% to 0% to minimize negative impact on users during the offboarding process.

To give users more time to manually close their positions, while also materially derisking exposure before the WBTC transfer date on 8 October (60 days after BitGo's initial announcement), we recommend starting off by increasing the liquidation ratio of the WBTC-A and WBTC-B vault types to 150% over 6 days.

Based on the existing distribution of CDP collateralization levels, this initial change would not result in any positions being liquidated, as the lowest collateralized position currently has a ~154% collateral ratio.

In the next phase, we recommend taking firmer action by increasing the liquidation ratio to 500% over the following 30 days (increasing the liquidation ratio by roughly 15% per day), which should be sufficient to fully liquidate most remaining legacy WBTC vault positions, with just 4 million DAI debt remaining across 70 CDPs based on current position collateralization levels. From the figure below, we see that the majority of liquidation activity takes place in the first 3 weeks from this being activated.



Once this linear liquidation ratio increase has concluded, we will recommend a final parameter change to increase the liquidation ratio of all WBTC vaults high enough to fully liquidate all remaining positions.

SparkLend

SparkLend does not have a similar LERP mechanism available to update collateral parameters. Bearing this in mind, we recommend to deprecate this asset over the course of several executive proposals.

Phase 1:

- Reduce LT from 75% to 70%
- Update cap automator parameters
 - Reduce supply cap gap from 500 WBTC to 200 WBTC
 - Reduce supply cap max from 10,000 WBTC to 5,000 WBTC
 - Reduce borrow cap gap from 100 WBTC to 1 WBTC
 - Reduce borrow cap max from 2,000 WBTC to 1 WBTC

Phase 2:

- Reduce LT from 70% to 65%
- Update cap automator parameters
 - Reduce supply cap gap from 200 WBTC to 100 WBTC
 - Reduce supply cap max from 5,000 WBTC to 3,500 WBTC
- Update interest rate model parameters
 - Increase base rate from 0% to 5%
 - Increase slope 1 from 2% to 20%

Phase 3:

- Reduce LT from 65% to 50%
- Update cap automator parameters
 - Reduce supply cap gap from 100 WBTC to 50 WBTC
 - Reduce supply cap max from 3,500 WBTC to 2,500 WBTC

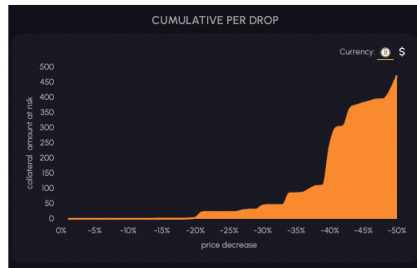
Phase 4:

- Reduce LT from 50% to 35%
- Update cap automator parameters
 - Remove WBTC from cap automator

- Reduce supply cap to 0 WBTC
- Reduce borrow cap to 0 WBTC

Phase 5:

- Reduce LT from 35% to 0%



[Block Analitica SparkLend Dashboard](#)

Phase 1 and 2 changes reducing LT from 75% to 65% would result in only 0.6 WBTC liquidated based on current market state. Later changes would result in progressively higher levels of liquidation activity if users don't close their positions themselves.

Summary of Recommended Changes

BA Labs, acting as Stability Advisor, recommends to the Stability Facilitator to propose the following parameter changes, which must be polled and included in the specified executive votes (subject to change)

Notice of proposed offboarding: 12 September 2024

This will provide two weeks of notice to users that WBTC collateral will be offboarded by the protocol, before parameter changes begin to take place. Note that the possibility of collateral offboarding was raised in the forum on 10 August, and many users seem to have already begun to make alternative arrangements for their positions.

Proposal 1: 26 September 2024

Legacy Vaults

- Reduce liquidation penalty for WBTC-A, WBTC-B, and WBTC-C from 13% to 0%
- Set LERP for liquidation ratios
 - WBTC-A: 145% to 150% over 6 days
 - WBTC-B: 130% to 150% over 6 days
- Reduce stability fees for WBTC-A, WBTC-B, and WBTC-C vaults to 0%

SparkLend

- Reduce LT from 75% to 70%
- Update cap automator parameters
 - Reduce supply cap gap from 500 WBTC to 200 WBTC
 - Reduce supply cap max from 10,000 WBTC to 5,000 WBTC
 - Reduce borrow cap gap from 100 WBTC to 1 WBTC
 - Reduce borrow cap max from 2,000 WBTC to 1 WBTC

Expected Future Changes

Below we list the expected timeline for additional parameter updates to gradually offboard WBTC collateral types.

Proposal 2: 3 October 2024

Legacy Vaults

- Set LERP for liquidation ratios
 - WBTC-A: 150% to 500% over 30 days
 - WBTC-B: 150% to 500% over 30 days
 - WBTC-C: 170% to 500% over 30 days
- Reduce ilk.hole parameters (maximum liquidation throughput)
 - WBTC-A: reduce from 10 million DAI to 3 million DAI
 - WBTC-B: reduce from 5 million DAI to 3 million DAI
 - WBTC-C: reduce from 10 million DAI to 3 million DAI

SparkLend

- Reduce LT from 70% to 65%
- Update cap automator parameters
 - Reduce supply cap gap from 200 WBTC to 100 WBTC
 - Reduce supply cap max from 5,000 WBTC to 3,500 WBTC
- Update interest rate model parameters
 - Increase base rate from 0% to 5%
 - Increase slope 1 from 2% to 20%

Expected Handover Date for WBTC: 8 October 2024

Assuming Spells are passed and executed as soon as feasible, both legacy vaults and SparkLend will feature at least a ~150% minimum collateralization ratio (roughly equivalent to 65% liquidation threshold on SparkLend). It is expected that legacy vaults will have roughly 112 million DAI remaining exposure, while SparkLend would have around 73 million DAI exposure, for a grand total of up to 185 million DAI in WBTC exposure. However, it is assumed that actual exposure will be much lower as users begin to unwind their positions on their own before facing liquidation.

Proposal 3: 17 October 2024

SparkLend

- Reduce LT from 65% to 50%
- Update cap automator parameters
 - Reduce supply cap gap from 100 WBTC to 50 WBTC
 - Reduce supply cap max from 3,500 WBTC to 2,500 WBTC

Proposal 4: 31 October 2024

SparkLend

- Reduce LT from 50% to 35%
- Update cap automator parameters
 - Remove WBTC from cap automator

- Reduce supply cap to 0 WBTC
- Reduce borrow cap to 0 WBTC

Proposal 5: 14 November 2024 or later

Legacy Vaults

- Increase liquidation ratios for WBTC-A, WBTC-B, and/or WBTC-C to trigger liquidation of any remaining positions

SparkLend

- Reduce LT from 35% to 0%

Strategy for BTC Collateral

BTCT has historically been one of the more successful collateral types at Maker and Spark. At current exposure and rates, WBTC collateral is generating almost \$15 million per year in revenue, or roughly 6% of total revenue across the Sky Ecosystem; note that loss of revenue from WBTC collateralized borrowing will be partly offset by increase in revenue from the Life PSM, so the net revenue contribution from WBTC is less than 6%. WBTC no longer being supported by the protocol, Sky should consider alternative BTC denominated assets to help fill this gap and continue meeting end user demand.

We identify three promising areas for further research and potential collateral onboarding:

- Centralized / custodial tokenized Bitcoin products
- Decentralized / noncustodial tokenized Bitcoin products
- Bitcoin staking / restaking products

For centralized tokens, the most notable product is Coinbase's upcoming cbBTC product. cbBTC just went live today and Phoenix Labs has posted a [proposal](#) to onboard it as collateral on SparkLend. In the immediate term we believe this asset is best positioned to provide legacy vault and SparkLend users with a BTC collateral product as WBTC is offboarded.

There are also other existing and forthcoming custodial BTC products that may also be worth consideration for collateral onboarding. Threshold's tBTC product is the market leader for decentralized products, with Aave currently considering it for possible collateral onboarding. The recently launched Babylon Bitcoin staking protocol, along with restaking opportunities through Symbiotic and others, have opened up opportunities for yield bearing Bitcoin tokens such as Lombard's LBTC. Sky and Spark can consider these other products as a way to potentially diversify BTC collateral exposure and serve different user preferences.